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**AGENCY OVERVIEW****405 Industrial Commission**

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**Date:** 01/13/2011**Time:** 11:01:20**Statutory Authority**

North Dakota Century Code 4-36, 6-09.4, 17-05, 23-29-07.6, 38-08, 38-08.1, 38-12, 38-14.1, 38-15, 38-19, 38-22, 49-24, 54-17, 54-17.2, 54-17.3, 54-17.6, 54-17.7, 54-17-34, 54-17-38, 54-63 and 57-61-01.5.

**Agency Description**

The Industrial Commission (IC) budget is comprised of three agencies including the Administrative Office, the Public Finance Authority (PFA), and the Department of Mineral Resources (DMR), which includes the Oil and Gas Division (OGD) and the Geological Survey (GS).

The Administrative Office coordinates the activities of the agencies overseen by the IC. The office is the contracting office for the Lignite, Oil and Gas, and Renewable Energy Research Programs. Funding for the Renewable Energy Program is a line item in this budget. This office is the primary contact for the Building Authority.

The DMR consists of the GS and OGD. The DMR is the primary source of information regarding the geology of ND and is responsible for regulating all facets of petroleum production through enforcement of statutes, rules and regulations of the IC with regards to permitting of wells, establishing well spacing for producing reservoirs, inspection of facilities, approving enhanced oil recovery operations, ensuring proper plugging and site reclamation of all wells, and conducting hearings on oil and gas matters in a manner that will be most beneficial to the producer, royalty owner and all citizens of the state. The DMR maintains the state's core and sample library in Grand Forks, coordinates the State Fossil Collection, and disseminates geological information via the internet, maps, publications, presentations, tours and field trips. The DMR has statutory regulatory responsibilities for subsurface minerals, underground injection, carbon dioxide underground storage, oil well cores and samples, coal exploration drilling, geothermal drilling and paleontological resources.

The PFA provides market and below market loans to political subdivisions through the purchase and holding of eligible securities and provides financial services in connection with the administration and management of the State Revolving Fund Program as the financial agent for the State Health Department.

**Agency Mission Statement**

- Through the Administrative Office, serve as the central contact for the activities and programs overseen by the North Dakota Industrial Commission and serve as secretary for the Commission.
- Through the Administrative Office, facilitate the operations of the Oil and Gas Research Program which has the mission to promote the growth of the oil and gas industry through research and education.
- Through the Administrative Office (which serves as the contracting officer for the Lignite Research, Development and Marketing Program), promote economic, efficient and clean uses of lignite and products derived from lignite in order to maintain and enhance development of North Dakota lignite and its products; preserve and create jobs involved in the production and utilization of North Dakota lignite; ensure economic stability, growth and opportunity in the lignite industry; and maintain a stable and competitive tax base for our state's lignite industry for the general welfare of North Dakota. The development of North Dakota's lignite resources must be conducted in an environmentally sound manner that protects our state's air, water and soil resources as specified by applicable federal and state law.
- Through the Transmission Authority (activities coordinated by the Administrative Office) with funding made available from the Lignite Research Program, assist with the removal of electrical transmission export constraints and assist with the upgrading and expansion of the region's electrical transmission grid in order to facilitate the development of the state's abundant natural resources for export to the regions' consumers.
- Through the Administrative Office acting as the North Dakota Building Authority, access the national capital markets for financing of capital projects approved by the legislature.
- Through the Pipeline Authority (activities assisted by the Administrative Office and the Department of Mineral Resources), facilitate development of pipeline facilities to support the production, transportation, and utilization of North Dakota energy-related commodities.
- Through the Administrative Office, in coordination with the Department of Commerce, facilitate the operations of the Renewable Energy Development Program which has the mission to promote the growth of North Dakota's renewable energy industries through research, development and education.
- Through the Administrative Office as the authorized officer for the North Dakota Student Loan Trust, access the national markets for financing the purchase of student loans thus serving as a secondary market for student loans.

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- Through the Department of Mineral Resources, encourage and promote the development, production and utilization of oil and gas in the state in such a manner as will prevent waste, maximize economic recovery, assure that appropriate drilling and plugging operations are utilized that prevent the pollution of freshwater supplies by oil, gas, or saltwater and prevent blowouts, and fully protect the correlative rights of all owners to the end that the landowners, the royalty owners, the producers, and the general public realize the greatest possible good from these vital natural resources.
- Through the Department of Mineral Resources, investigate and report the geology of North Dakota emphasizing the state's energy resources and stressing applied research, public service, dissemination of information, advisory work and regulatory duties leading to the economic benefits or quality of life improvements for residents of the state, industry and other state, federal and local government agencies.
- Through the Department of Mineral Resources, maintaining the valuable oil and gas cores and coordinating the State's Fossil Collection for the benefit of the State's citizens.
- Through the Public Finance Authority, assist with the development of rural and urban North Dakota by providing political subdivisions and other qualifying entities access to flexible and competitive financing option for their local qualifying projects.
- Through the Public Finance Authority, assist small issue manufacturers in obtaining loans through tax-exempt financing.

**Agency Performance Measures**

Performance Measures are addressed under each of the individual programs.

**Major Accomplishments**

1. Helped coordinate the activities of the Pipeline Authority during an unprecedented level of activity.
2. Provided information on current pipeline construction activities through newsletters, webinars and presentations.
3. Developed criteria for analyzing transmission projects seeking financing by the issuance of Transmission Authority bonds.
4. Published 79 articles, maps and reports on ND geology including the Bakken and Three Forks Formations; issued 188 geothermal, coal exploration and subsurface mineral permits; completed a new fossil exhibit at the Cowboy Hall of Fame; reboxed 2,800 core boxes and 15,000 sample boxes; lifted more than 3,870 tons of rock core in the core and sample library; field tested 2,044 observation wells in 30 counties for shallow gas (methane) and participated in four public fossil digs each summer.
5. Dealt with an increasing workload with the state experiencing record oil and gas production of over 321,000 barrels of oil per day, the highest level of drilling rig activity with the issuance of 1,014 well permits and a record setting number of cases heard (1,598) with orders issued and 21 seismic projects permitted. Completed an assessment of the oil potential of the Three Forks Formation in North Dakota. Enhanced royalty owner access. Co-sponsored the 2010 Williston Basin Petroleum Conference & Expo in Bismarck that drew a record setting 2,700 attendees.

**Future Critical Issues**

- The need for additional staffing in the Department of Mineral Resources along with competitive salaries for experienced personnel.
- Increasing environmental and reclamation workload on the Department of Mineral Resources as a result of federal and state legislation with no additional funding provided.
- Equipment and temporary salary needs for electronic storage and dissemination of oil and gas information to county governmental agencies, landowners, and all citizens of the State.
- Transmission (electrical) and Transportation (pipeline) constraints that limit the State's energy industries from exporting energy out of North Dakota.
- The lignite energy industry is facing an unknown future as a result of laws being implemented and proposed at the federal level regarding CO2 the lack of a national energy policy and proposed regulation from the Environmental Protection Agency. Technology needs to be developed in order for this industry to continue.
- An increasing demand for renewable energy without sufficient time to develop technology and identification of the best possible sources.

**REQUEST SUMMARY**

405 Industrial Commission

Biennium: 2011-2013

Bill#: HB1014

Date: 01/13/2011

Time: 11:01:20

Description	Expenditures 2007-2009 Biennium	Present Budget 2009-2011	Budget Request Change	Requested Budget 2011-2013 Biennium	Optional Budget Request
<b>By Major Program</b>					
Administration	40,555,073	51,278,498	(5,498,710)	45,779,788	5,063,273
Office of Mineral Resources	8,844,017	11,644,707	(619,490)	11,025,217	4,421,917
Public Finance Authority	341,474	670,033	(39,109)	630,924	0
<b>Total Major Program</b>	<b>49,740,564</b>	<b>63,593,238</b>	<b>(6,157,309)</b>	<b>57,435,929</b>	<b>9,485,190</b>
<b>By Line Item</b>					
Salaries and Wages	7,383,240	10,015,497	(503,931)	9,511,566	3,285,333
Operating Expenses	1,898,259	2,715,576	(101,639)	2,613,937	1,199,857
Capital Assets	255,544	49,000	(49,000)	0	0
Grants	8,654,871	19,971,300	0	19,971,300	0
Grants-Fossil Excavation	250,000	0	0	0	0
Bond Payments	28,268,350	27,441,865	(2,102,739)	25,339,126	0
State Facility Lignite Proj	0	400,000	(400,000)	0	0
Biomass Incentive Research	30,300	0	0	0	0
Renewable Energy Dev	3,000,000	3,000,000	(3,000,000)	0	5,000,000
<b>Total Line Items</b>	<b>49,740,564</b>	<b>63,593,238</b>	<b>(6,157,309)</b>	<b>57,435,929</b>	<b>9,485,190</b>
<b>By Funding Source</b>					
General Fund	11,547,565	14,275,254	(3,513,522)	10,761,732	8,703,544
Federal Funds	266,250	254,246	9,239	263,485	0
Special Funds	37,926,749	49,063,738	(2,653,026)	46,410,712	781,646
<b>Total Funding Source</b>	<b>49,740,564</b>	<b>63,593,238</b>	<b>(6,157,309)</b>	<b>57,435,929</b>	<b>9,485,190</b>
<b>Total FTE</b>	<b>55.37</b>	<b>61.06</b>	<b>(1.00)</b>	<b>60.06</b>	<b>18.69</b>

**REQUEST DETAIL****405 Industrial Commission****Biennium: 2011-2013****Bill#: HB1014****Date:** 01/13/2011**Time:** 11:01:20

Description	Expenditures 2007-2009 Biennium	Present Budget 2009-2011	Budget Request Change	Requested Budget 2011-2013 Biennium	Optional Budget Request
<b>Salaries and Wages</b>					
Salaries - Permanent	5,611,496	7,389,467	(538,665)	6,850,802	1,606,067
Salaries - Other	0	0	0	0	1,283,569
Temporary Salaries	34,593	62,185	202,251	264,436	201,077
Overtime	288	1,611	(1,611)	0	0
Fringe Benefits	1,736,863	2,562,234	(165,906)	2,396,328	661,822
Reduction In Salary Budget	0	0	0	0	(467,202)
<b>Total</b>	<b>7,383,240</b>	<b>10,015,497</b>	<b>(503,931)</b>	<b>9,511,566</b>	<b>3,285,333</b>
<b>Salaries and Wages</b>					
General Fund	6,332,729	8,569,308	(60,318)	8,508,990	2,749,687
Federal Funds	266,054	245,246	18,239	263,485	0
Special Funds	784,457	1,200,943	(461,852)	739,091	535,646
<b>Total</b>	<b>7,383,240</b>	<b>10,015,497</b>	<b>(503,931)</b>	<b>9,511,566</b>	<b>3,285,333</b>
<b>Operating Expenses</b>					
Travel	572,767	1,041,660	(131,320)	910,340	818,537
Supplies - IT Software	48,550	45,825	(75)	45,750	34,000
Supply/Material-Professional	49,148	27,300	0	27,300	15,000
Food and Clothing	1,963	3,350	0	3,350	4,200
Bldg, Ground, Maintenance	14,929	11,050	0	11,050	0
Miscellaneous Supplies	30,823	37,400	(4,500)	32,900	25,500
Office Supplies	26,846	27,000	(200)	26,800	15,500
Postage	25,696	22,750	75	22,825	0
Printing	19,847	37,000	450	37,450	0
IT Equip Under \$5,000	88,027	122,920	(16,720)	106,200	43,620
Other Equip Under \$5,000	14,202	21,040	0	21,040	0
Office Equip & Furn Supplies	6,006	2,600	0	2,600	0
Utilities	8,952	12,000	0	12,000	0
Insurance	11,122	17,450	0	17,450	0
Rentals/Leases-Equip & Other	8,811	27,530	(7,000)	20,530	0
Rentals/Leases - Bldg/Land	524,020	581,655	47,000	628,655	0
Repairs	34,911	38,500	0	38,500	0
IT - Data Processing	121,649	161,006	41,267	202,273	42,000
IT - Communications	77,028	119,609	(3,616)	115,993	31,000
IT Contractual Svcs and Rprs	28,619	40,070	0	40,070	0
Professional Development	42,716	60,800	4,500	65,300	8,500
Operating Fees and Services	73,788	85,000	0	85,000	47,000
Fees - Professional Services	64,944	166,170	(31,500)	134,670	115,000
Medical, Dental and Optical	2,895	5,891	0	5,891	0

**REQUEST DETAIL**

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Biennium: 2011-2013

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<b>Total</b>	<b>1,898,259</b>	<b>2,715,576</b>	<b>(101,639)</b>	<b>2,613,937</b>	<b>1,199,857</b>
<b>Operating Expenses</b>					
General Fund	1,709,292	2,267,946	(15,204)	2,252,742	953,857
Federal Funds	196	9,000	(9,000)	0	0
Special Funds	188,771	438,630	(77,435)	361,195	246,000
<b>Total</b>	<b>1,898,259</b>	<b>2,715,576</b>	<b>(101,639)</b>	<b>2,613,937</b>	<b>1,199,857</b>
<b>Capital Assets</b>					
Extraordinary Repairs	229,569	0	0	0	0
Equipment Over \$5000	7,657	34,669	(34,669)	0	0
IT Equip/Sftware Over \$5000	18,318	14,331	(14,331)	0	0
<b>Total</b>	<b>255,544</b>	<b>49,000</b>	<b>(49,000)</b>	<b>0</b>	<b>0</b>
<b>Capital Assets</b>					
General Fund	255,544	38,000	(38,000)	0	0
Federal Funds	0	0	0	0	0
Special Funds	0	11,000	(11,000)	0	0
<b>Total</b>	<b>255,544</b>	<b>49,000</b>	<b>(49,000)</b>	<b>0</b>	<b>0</b>
<b>Grants</b>					
Grants, Benefits & Claims	8,654,871	19,916,391	0	19,916,391	0
Transfers Out	0	54,909	0	54,909	0
<b>Total</b>	<b>8,654,871</b>	<b>19,971,300</b>	<b>0</b>	<b>19,971,300</b>	<b>0</b>
<b>Grants</b>					
General Fund	0	0	0	0	0
Federal Funds	0	0	0	0	0
Special Funds	8,654,871	19,971,300	0	19,971,300	0
<b>Total</b>	<b>8,654,871</b>	<b>19,971,300</b>	<b>0</b>	<b>19,971,300</b>	<b>0</b>
<b>Grants-Fossil Excavation</b>					
Transfers Out	250,000	0	0	0	0
<b>Total</b>	<b>250,000</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Grants-Fossil Excavation</b>					
General Fund	250,000	0	0	0	0
Federal Funds	0	0	0	0	0
Special Funds	0	0	0	0	0

**REQUEST DETAIL**

405 Industrial Commission  
Biennium: 2011-2013

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Description	Expenditures 2007-2009 Biennium	Present Budget 2009-2011	Budget Request Change	Requested Budget 2011-2013 Biennium	Optional Budget Request
<b>Total</b>	<b>250,000</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Bond Payments</b>					
Transfers Out	28,268,350	27,441,865	(2,102,739)	25,339,126	0
<b>Total</b>	<b>28,268,350</b>	<b>27,441,865</b>	<b>(2,102,739)</b>	<b>25,339,126</b>	<b>0</b>
<b>Bond Payments</b>					
General Fund	0	0	0	0	0
Federal Funds	0	0	0	0	0
Special Funds	28,268,350	27,441,865	(2,102,739)	25,339,126	0
<b>Total</b>	<b>28,268,350</b>	<b>27,441,865</b>	<b>(2,102,739)</b>	<b>25,339,126</b>	<b>0</b>
<b>State Facility Lignite Proj</b>					
Grants, Benefits & Claims	0	400,000	(400,000)	0	0
<b>Total</b>	<b>0</b>	<b>400,000</b>	<b>(400,000)</b>	<b>0</b>	<b>0</b>
<b>State Facility Lignite Proj</b>					
General Fund	0	400,000	(400,000)	0	0
Federal Funds	0	0	0	0	0
Special Funds	0	0	0	0	0
<b>Total</b>	<b>0</b>	<b>400,000</b>	<b>(400,000)</b>	<b>0</b>	<b>0</b>
<b>Biomass Incentive Research</b>					
Professional Development	300	0	0	0	0
Transfers Out	30,000	0	0	0	0
<b>Total</b>	<b>30,300</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Biomass Incentive Research</b>					
General Fund	0	0	0	0	0
Federal Funds	0	0	0	0	0
Special Funds	30,300	0	0	0	0
<b>Total</b>	<b>30,300</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Renewable Energy Dev</b>					
Transfers Out	3,000,000	3,000,000	(3,000,000)	0	5,000,000
<b>Total</b>	<b>3,000,000</b>	<b>3,000,000</b>	<b>(3,000,000)</b>	<b>0</b>	<b>5,000,000</b>

Renewable Energy Dev

**REQUEST DETAIL**

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Biennium: 2011-2013

Bill#: HB1014

Date: 01/13/2011

Time: 11:01:20

Description	Expenditures 2007-2009 Biennium	Present Budget 2009-2011	Budget Request Change	Requested Budget 2011-2013 Biennium	Optional Budget Request
General Fund	3,000,000	3,000,000	(3,000,000)	0	5,000,000
Federal Funds	0	0	0	0	0
Special Funds	0	0	0	0	0
<b>Total</b>	<b>3,000,000</b>	<b>3,000,000</b>	<b>(3,000,000)</b>	<b>0</b>	<b>5,000,000</b>

**Funding Sources**

General Fund	11,547,565	14,275,254	(3,513,522)	10,761,732	8,703,544
Federal Funds	266,250	254,246	9,239	263,485	0
Special Funds	37,926,749	49,063,738	(2,569,894)	46,410,712	781,646
<b>Total Funding Sources</b>	<b>49,740,564</b>	<b>63,593,238</b>	<b>(6,074,177)</b>	<b>57,435,929</b>	<b>9,485,190</b>

**CHANGE PACKAGE SUMMARY**

405 Industrial Commission

Bill#: HB1014

Date: 01/13/2011

Biennium: 2011-2013

Time: 11:01:20

Description	Priority	FTE	General Fund	Federal Funds	Special Funds	Total Funds
<b><u>Base Budget Changes</u></b>						
<b>One Time Budget Changes</b>						
A-E 1 Removal of 09-11 Biennium One-Time		0.00	(3,469,150)	0	(108,040)	(3,577,190)
<b>Total One Time Budget Changes</b>		<b>0.00</b>	<b>(3,469,150)</b>	<b>0</b>	<b>(108,040)</b>	<b>(3,577,190)</b>
<b>Ongoing Budget Changes</b>						
A-A 19 Adjustments to Bond Payments		0.00	0	0	(2,102,739)	(2,102,739)
A-A 2 Base Budget Changes to Meet 100%		0.00	335,826	0	0	335,826
A-A 4 Funding Source Change		0.00	9,000	(9,000)	0	0
A-A 6 Base Budget Changes		0.00	0	0	30,605	30,605
A-F 3 Remove 09-11 Biennium Capital Assets		0.00	(38,000)	0	(11,000)	(49,000)
Base Payroll Change		(1.00)	(351,198)	18,239	(461,852)	(794,811)
<b>Total Ongoing Budget Changes</b>		<b>(1.00)</b>	<b>(44,372)</b>	<b>9,239</b>	<b>(2,544,986)</b>	<b>(2,580,119)</b>
<b>Total Base Budget Changes</b>		<b>(1.00)</b>	<b>(3,513,522)</b>	<b>9,239</b>	<b>(2,653,026)</b>	<b>(6,157,309)</b>
<b><u>Optional Budget Changes</u></b>						
<b>One Time Optional Changes</b>						
A-D 21 Proppant Study	13	0.00	50,000	0	0	50,000
A-D 22 Shallow Gas Study	17	0.00	25,000	0	0	25,000
A-D 24 Analysis of Oil-Bearing Rocks	18	0.00	40,000	0	0	40,000
A-D 23 Paleontologic Prep work	19	0.00	62,400	0	0	62,400
<b>Total One Time Optional Changes</b>		<b>0.00</b>	<b>177,400</b>	<b>0</b>	<b>0</b>	<b>177,400</b>
<b>Ongoing Optional Changes</b>						
A-C 7 Restoration/Inflation	1	1.00	329,569	0	0	329,569
A-C 8 Funding Source Change 09-11 Contingency	3	2.00	319,219	0	0	319,219
A-C 9 Equity Increases	4	0.00	1,283,569	0	0	1,283,569
A-C 10 Unclassified Petroleum Engineer FTE	5	1.00	192,393	0	0	192,393
A-C 11 (4) FTE Eng. Tech/Field Inspector	6	4.00	718,373	0	0	718,373
A-C 12 FTE Eng Tech Measurement Specialist	7	1.00	179,593	0	0	179,593



**CHANGE PACKAGE SUMMARY**

405 Industrial Commission

Bill#: HB1014

Date: 01/13/2011

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Description	Priority	FTE	General Fund	Federal Funds	Special Funds	Total Funds
A-C 13 FTE Production Analyst	8	1.00	118,503	0	0	118,503
A-C 25 Renewable Energy Development Program	9	0.00	5,000,000	0	0	5,000,000
A-C 14 FTE Unclassified Geologist Subsurface Min. Prog	10	1.00	212,739	0	0	212,739
A-C 15 FTE Eng. Tech for Core Library	11	1.00	152,893	0	0	152,893
A-C 16 FTE Administrative Staff Officer	12	1.00	118,503	0	0	118,503
A-C 20 Reboxing Program in Core and Sample Library	14	0.00	15,000	0	0	15,000
A-C 26 .69 FTE Admin. Asst	15	0.69	0	0	63,273	63,273
A-C 18 FTE Unclassified Geologist Surface Mapping Prog	16	1.00	208,642	0	0	208,642
A-C 17 Contingency (4) FTE Eng. Tech .	20	4.00	0	0	718,373	718,373
<b>Total Ongoing Optional Changes</b>		<b>18.69</b>	<b>8,848,996</b>	<b>0</b>	<b>781,646</b>	<b>9,630,642</b>
<b>Total Optional Budget Changes</b>		<b>18.69</b>	<b>9,026,396</b>	<b>0</b>	<b>781,646</b>	<b>9,808,042</b>
<b><u>Optional Savings Changes</u></b>						
A-G 5 97% Budget Optional Savings	2	0.00	(322,852)	0	0	(322,852)
<b>Total Optional Savings Changes</b>		<b>0.00</b>	<b>(322,852)</b>	<b>0</b>	<b>0</b>	<b>(322,852)</b>

**BUDGET CHANGES NARRATIVE****405 Industrial Commission****Bill#: HB1014****Date:** 01/13/2011**Time:** 11:01:20

<b>Change Group:</b> A	<b>Change Type:</b> A	<b>Change No:</b> 2	<b>Priority:</b>
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Base Budget Changes to Meet 100%

Dept Mineral Resources

In order to absorb office and warehouse rent increases, IT increases, and motorpool mileage increases and meet the 100% budget guidelines we had to make the following adjustments.

**SALARIES AND BENEFITS**

The net decrease of \$38,261 is a result of the elimination of the recruitment/retention funding and one engineering tech to offset inflationary increases in operating expenses and increases in temporary salaries for hiring seasonal help as needed to complete core library re-boxing as well as oil and gas permitting.

1) RIF an engineering tech                      \$118,912

The impact of this change will be reduced productivity in issuing drilling permits. The average number of permits that can be processed will be limited to approximately five per day which will limit the drilling rig count to approximately 100.

During the 2009-2011 biennium we experienced a significant increase in workload due to a record setting rig count and oil production. This increased workload resulted in a 300+ drilling permit back log and an order back log of approximately 300 cases. To deal with that back log the Department contracted for services just to deal with that aspect of the increased workload. Current staffing levels are adequate to keep up with about 120 rigs. We have now exceeded that level of rigs. Even with the additional staffing being requested in this budget, temporary staffing will be crucial to meeting our mission both in the field and in the central office and flexibility is needed so that the personnel can be assigned to meet the most critical need. Increased interest in oil and gas and other minerals found in North Dakota is also resulting in an increased workload with the Geological Survey staff and temporary staffing is needed in order for the agency to have the flexibility to hire staffing as needed to meet our mission. The Department also continues to face difficulties in hiring experienced oil and gas and geological staff and recruitment bonuses may be needed to find qualified personnel (See Budget Change A-C-9). Additional temporary salaries have been requested in order for the Department to have the flexibility to hire staff where it is most needed—either in the field or in the office—and to recruit experienced personnel.

**FEDERAL FUNDS**

Federal funds are expected to increase only 3.3% or \$9,239 to \$263,485.

**TRAVEL**

DOT motor pool rates will increase 14% from the 2009-2001 biennium resulting in an inflationary increase of \$8,200 for the Geological Survey and reduction in services equivalent to \$117,837 (Change Package A-C-7) for the Oil and Gas Division. To accomplish this reduction the number of field inspections will have to be reduced at a time when industry has a large number of inexperienced personnel who need guidance and supervision. This may result in inadequate protection of potable waters and correlative rights.

**IT-SOFTWARE/SUPPLIES**

Geological Survey will experience an inflationary increase of \$2,175.

**BUDGET CHANGES NARRATIVE****405 Industrial Commission****Bill#: HB1014****Date:** 01/13/2011**Time:** 11:01:20**IT-OTHER EQUIPMENT UNDER \$5000**

Geological Survey can realize savings of \$9,620 by extending computer warranties to 4 years.

**LEASE/RENT BLDG/LAND**

Geological Survey rent is increasing \$7,000 in our Bismarck office building, and Oil and Gas Division rent is increasing \$40,000 in our Bismarck, Dickinson, Minot, and Williston office buildings. These offices currently provide a location for efficient synchronization of inspector data to our main database, contact between the general public and local Oil and Gas Division employees, and for inspectors to complete written correspondence. Closing the field offices is not in the best interests of the division or citizens as it would result in the inefficient use of employee time, difficulty maintaining the highly respected and utilized Risked Based Data Management System (RBDMS), and cause a disconnect with local land owners and royalty owners.

**DATA PROCESSING**

Increase of \$41,044 due to the need for upgrades to communications links with field offices to handle the additional oil and gas activity.

**TELECOMMUNICATIONS - ISD**

Our phone, cell phone, and long distance rates will decrease by \$1,133

**ADVERTISING SERVICES**

Applications received for hearings have risen dramatically during the 2009-2011 biennium. The current budget of \$30,325 will be exceeded by an additional \$47,000 (See Budget Change A-C-7) . Holding funding for legal advertisements constant to meet budget guidelines will require limiting the number of applications heard by the Commission. This will cause untimely delays in permitting and drilling wells and result in the loss of revenue to the state and royalty owners.

<b>Change Group:</b> A	<b>Change Type:</b> A	<b>Change No:</b> 4	<b>Priority:</b>
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**Funding Source Change**Geological Survey

This change package is to change the funding source in Operating from Federal dollars to General Fund dollars. The Survey does not anticipate receiving Federal dollars for operating expenses.

<b>Change Group:</b> A	<b>Change Type:</b> A	<b>Change No:</b> 6	<b>Priority:</b>
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**Base Budget Changes**Public Finance Authority

IT – Data Processing increased – reflect the increased ITD and ISP rates.

Travel increased – reflect the increased costs associated with in-state travel for the Executive Director located in Jamestown.

**BUDGET CHANGES NARRATIVE****405 Industrial Commission****Bill#: HB1014****Date:** 01/13/2011**Time:** 11:01:20

Lease Equipment decreased – do not anticipate a need to lease equipment in the upcoming biennium.

Administration

Increasing costs for travel and the additional number of individuals appointed to the Interstate Oil & Gas Compact Commission. Increased dues as the dues are based on oil production.

With additional responsibilities, increased hours are needed from the Attorney General's staff to provide legal advice.

The remaining increases are requested to cover inflationary cost and higher information technology costs charged to the agency.

<b>Change Group:</b> A	<b>Change Type:</b> A	<b>Change No:</b> 19	<b>Priority:</b>
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## Adjustments to Bond Payments

Included under the Administrative Office is the line item for North Dakota Building Authority bond payments. Bond payments have been reduced by \$2,102,739.

<b>Change Group:</b> A	<b>Change Type:</b> C	<b>Change No:</b> 7	<b>Priority:</b> 1
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## Restoration/Inflation

Department of Mineral Resources

Meeting budget guidelines required a decrease of one FTE, a drilling permit technician, as well as holding operating expenses for oil and gas division field inspection travel and hearing case advertising constant. Elimination of this position will require limiting the number of cases heard each month and a decrease in the drilling permits issued to reduce the rig count to 100 or less. Restoring this position and operating expenses will allow the Department of Mineral Resources to continue the service levels provided to the public and the oil and gas industry in 2010.

	<u>RESTORATION</u>	<u>INFLATION</u>
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FTE	\$118,912	
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OPERATING

Travel	42,720	\$75,117
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IT Software/Sup		17,000
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Office Supplies		7,000
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**BUDGET CHANGES NARRATIVE****405 Industrial Commission****Bill#: HB1014****Date:** 01/13/2011**Time:** 11:01:20

Data Processing	8,000
Safety Cloth	4,200
IT Under \$5000	9,620
Oper Fees	<u>47,000</u>
	52,340
	158,317

<b>Change Group:</b> A	<b>Change Type:</b> C	<b>Change No:</b> 8	<b>Priority:</b> 3
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Funding Source Change 09-11 Contingency

Oil & Gas Division

FUNDING CHANGE FOR TWO FTE \$319,219

Change funding from Land and Minerals Trust Fund to General Fund for \$249,819 salaries plus \$69,400 operating for a Petroleum Engineer Field Inspector and a Legal Assistant hired during the 1<sup>st</sup> quarter of fiscal year 2011. This change will allow the Oil & Gas Division to manage programs and personnel more efficiently. The Petroleum Engineer is needed to manage the current drilling activity now expected to continue for 15 to 20 years. The Legal Assistant is needed to manage the record hearing case load resulting from the Bakken / Three Forks activity.

<b>Change Group:</b> A	<b>Change Type:</b> C	<b>Change No:</b> 9	<b>Priority:</b> 4
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Equity Increases

Department of Mineral Resources

EQUITY INCREASES \$1,283,569

There is an ongoing need to pay competitive salaries for experienced personnel. There continues to be a tremendous difference between the salaries our agency is able to pay and those paid by the private sector. We have recently "lost" three employees to the private sector where their salaries were more than doubled. Oil and Gas Division Engineers and Survey geologists are paid 50-75% of what they can make in the private sector and support staff pay is approximately 80% of private sector for equivalent work. To keep these valuable experienced employees on staff during unprecedented mineral industry activity we request equity funding of \$1,283,569. We received some equity funding in 09-11 as well as \$185,000 for recruitment and retention bonuses.

<b>Change Group:</b> A	<b>Change Type:</b> C	<b>Change No:</b> 10	<b>Priority:</b> 5
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Unclassified Petroleum Engineer FTE

Oil & Gas Division

NEW FTE PETROLEUM ENGINEER \$192,400

**BUDGET CHANGES NARRATIVE****405 Industrial Commission****Bill#: HB1014****Date:** 01/13/2011**Time:** 11:01:20

This optional adjustment consists of \$130,900 salary plus \$61,500 operating expenses for a Petroleum Engineer Field Inspector position. Due to the ever-increasing activity level and workload placed on current field inspectors, we are not able to inspect drilling rigs and facilities as often as necessary to assure compliance with regulations. Additional field personnel will allow the optimum number of inspections to resume.

<b>Change Group:</b> A	<b>Change Type:</b> C	<b>Change No:</b> 11	<b>Priority:</b> 6
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(4) FTE Eng. Tech/Field Inspector

Oil & Gas Division

NEW FTE (4) ENGINEERING TECH ROUTINE FIELD INSPECTORS \$718,375

This optional adjustment of \$472,375 salaries plus \$246,000 operating is for is for four FTE Engineering Tech positions. Due to the rapidly increasing workload placed on Petroleum Engineering positions by drilling activity it will be more efficient to provide lower education level technical assistance in making routine producing well, injection well, and facility inspections.

<b>Change Group:</b> A	<b>Change Type:</b> C	<b>Change No:</b> 12	<b>Priority:</b> 7
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FTE Eng Tech Measurement Specialist

Oil & Gas Division

NEW FTE ENGINEERING TECH MEASUREMENT SPECIALIST \$179,600

This optional adjustment of \$118,100 salaries plus \$61,500 operating is for one FTE Engineering Tech position. Due to the rapidly increasing number of producing wells and multiple well production facilities workload has greatly exceeded the ability of our single oil and gas measurement specialist to make sure that all oil and gas produced in North Dakota is measured according to proper standards.

<b>Change Group:</b> A	<b>Change Type:</b> C	<b>Change No:</b> 13	<b>Priority:</b> 8
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FTE Production Analyst

Oil & Gas Division

PRODUCTION ANALYST POSITION \$118,500

This optional adjustment of \$110,000 salaries plus \$8,500 operating is for one FTE Production Analyst position. More efficient reporting and auditing methods allowed the Production Analyst staff to be reduced from two FTE to one FTE in 2001. Due to the rapidly increasing number of producing wells workload has greatly exceeded the ability of our single oil and gas production analyst to ensure that all oil and gas production is accurately and timely reported. Other state agencies including tax and land rely upon this data to ensure tax and royalty payments are made.

<b>Change Group:</b> A	<b>Change Type:</b> C	<b>Change No:</b> 14	<b>Priority:</b> 10
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FTE Unclassified Geologist Subsurface Min. Prog.

**BUDGET CHANGES NARRATIVE****405 Industrial Commission****Bill#: HB1014****Date:** 01/13/2011**Time:** 11:01:20Geological Survey**NEW FTE GEOLOGIST FOR SUBSURFACE MINERALS PROGRAM      \$212,740**

This optional adjustment of \$151,240 salaries plus \$61,500 operating is for one FTE to supervise the subsurface minerals program. The Geological Survey recently issued a permit for potash exploration, the first since 1976. We also issued a permit to drill a deep well exploring for diamonds in northeastern North Dakota. Global demand for salt, diamonds, molybdenum, and a whole host of other rocks and minerals has created more interest in North Dakota's mineral resources than we have witnessed at any time over the last 35 years. Between now and the end of the 2011-2013 biennium, we expect to receive a permit application for solution mining of potash, the first of its kind in North Dakota. Our subsurface mineral program includes all minerals other than coal and oil and gas and runs the gambit from surface mining to deep well solution mining. The subsurface mineral rules need to undergo a time-consuming, major revision. This new position would be tasked with updating the subsurface mineral rules and would be experienced enough to review the solution mining permit, a six month task, when it is submitted. We issued only four subsurface mineral permits in the 27 years between 1981 and 2008 and four permits in 2010 alone.

<b>Change Group:</b> A	<b>Change Type:</b> C	<b>Change No:</b> 15	<b>Priority:</b> 11
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FTE Eng. Tech for Core Library

Geological Survey**NEW FTE ENGINEERING TECH FOR CORE LIBRARY      \$152,900**

This optional adjustment of \$118,100 salaries plus \$34,800 operating is for one FTE to assist in the core library and with geothermal inspections in eastern North Dakota. Each of the last six years we have set a new record for geothermal permits. Through the first seven months of 2010 we had already issued twice the number of permits that were issued in all of 2007. The large commercial geothermal facilities require multiple site inspections and many of these are located in eastern North Dakota. We have been using our core library lab technician as a part-time geothermal inspector, but at the same time we are experiencing record activity in the core library and will fill this facility prematurely unless we can accelerate re-boxing and prioritization programs.

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<b>Change Group:</b> A	<b>Change Type:</b> C	<b>Change No:</b> 16	<b>Priority:</b> 12
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FTE Administrative Staff Officer

Shared Dept. Mineral Resources**New Administrative Staff Officer      \$118,500**

This optional adjustment of \$110,000 salaries plus \$8,500 operating is for one FTE to assist with the expanded accounting and publication workload at the Department of Mineral Resources. The administrative duties have grown significantly within the DMR over the past several years. At present, there are only two positions that handle all of the agency procurement and budget items. The administrative assistant is also in charge of laying out the semi-annual DMR Newsletter and all of the publications of the

**BUDGET CHANGES NARRATIVE****405 Industrial Commission****Bill#: HB1014****Date:** 01/13/2011**Time:** 11:01:20

Geological Survey as well as providing general secretarial services for a staff of nine geologists. The recently created or expanded Oil and Gas Research Council, Renewable Energy Council, and Pipeline Authority have added to the existing Administrative Staff Officer workload. The North Dakota Geological Survey is seeking an additional Administrative Staff Officer to assist with this expanded workload.

<b>Change Group:</b> A	<b>Change Type:</b> C	<b>Change No:</b> 17	<b>Priority:</b> 20
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Contingency (4) FTE Eng. Tech .

Oil & Gas Division

CONTINGENCY ENGINEERING TECH IV POSITIONS \$718,375

This optional adjustment of \$472,375 salaries plus \$246,000 operating is for four additional Field Inspector Engineering Tech positions to be funded from Land and Minerals Trust Fund upon approval of the Emergency Commission. Drilling rig activity is expected to increase, which will result in a significantly increased workload. These engineering technicians will be necessary at various times to provide technical assistance to petroleum engineers and perform routine inspections.

<b>Change Group:</b> A	<b>Change Type:</b> C	<b>Change No:</b> 18	<b>Priority:</b> 16
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FTE Unclassified Geologist Surface Mapping Prog.

Geological Survey

NEW FTE GEOLOGIST SURFACE MAPPING PROGRAM \$208,640

This optional adjustment of \$147,140 salaries plus \$61,500 operating is for one FTE to supervise the subsurface minerals program. In recent years, the Geological Survey shifted one-half of a surface position into our subsurface program to respond to the critical need for information on the oil producing rocks in the Williston Basin of North Dakota. For several decades, the Geological Survey had four surface geologists, we now have only 1.5. This has left us short in our surface mapping and geologic hazards programs. For the first time in 25 years, we are unable to participate in a federally-funded surface mapping program because we lack the necessary manpower. The North Dakota Geological Survey is seeking an additional geologist position for a surface geologist to assist with this workload.

<b>Change Group:</b> A	<b>Change Type:</b> C	<b>Change No:</b> 20	<b>Priority:</b> 14
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Reboxing Program in Core and Sample Library

Geological Survey

RE-BOXING PROGRAM IN THE CORE AND SAMPLE LIBRARY \$15,000

The Wilson M. Laird Core and Sample Library is very quickly filling up with cores and samples as a result of record oil and gas activity. To extend the life of the building for another five or six years or so we will need to re-box approximately 70,000 old and damaged boxes which will give us about a 20% space savings and open up about 350 bins. We do not have room to store 70,000 core new boxes so we would order 20,000 standard core boxes (\$10,000) and 5,000 small diameter core boxes (\$5,000).



**BUDGET CHANGES NARRATIVE**

405 Industrial Commission

Bill#: HB1014

Date: 01/13/2011

Time: 11:01:20

Change Group: A	Change Type: C	Change No: 25	Priority: 9
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Renewable Energy Development Program

**RENEWABLE ENERGY DEVELOPMENT PROGRAM****\$5,000,000**

The Renewable Energy Development Program has a continuing appropriation. During the 2007 session the Legislature appropriated \$20,000,000 consisting of \$3,000,000 of General Fund dollars and \$17,000,000 from special funds. In addition the 2007 Legislature authorized \$2,000,000 for the Biomass Research Incentive Fund. The source of these dollars was monies from two special funds held at the Bank of North Dakota. During the 2009 session the Renewable Energy Program and the Biomass Incentive Research Fund were combined and \$3,000,000 of General Fund dollars were appropriated to the Renewable Energy Fund. This budget requests \$5,000,000 of General Fund dollars.

For the first five rounds of the 2009-2011 biennium the Industrial Commission received 23 applications with two applications being resubmittals. The total amount of the grant applications was \$5,503,410 not counting the resubmittals. There will be one more grant round application deadline in January, 2011. The Council/Commission has approved \$2.4 million in project funding which is leveraged with matching dollars to total \$10.7 million. Two applications are pending that total \$679,953.

Change Group: A	Change Type: C	Change No: 26	Priority: 15
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.69 FTE Admin. Asst

**Administration**

During the 2009-2011 biennium the Legislature authorized an additional .5 FTE position for the Industrial Commission Administrative Office. Prior to the hiring of an individual to fill the position there was a need to utilize .19 of the FTE for a position at the Department of Mineral Resources because of the critical workload being faced by the Department. At this point the .31 FTE remains vacant. The workload in the Industrial Commission Administrative Office has been increasing over the past several biennia. (Transmission Authority, Pipeline Authority, Oil and Gas Research Program, Renewable Energy Program) Therefore, we are requesting a .69 FTE to be combined with the .31 FTE that is in the budget for one FTE. It is anticipated that this individual will work from a remote location.

Change Group: A	Change Type: D	Change No: 21	Priority: 13
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Proppant Study

**Geological Survey**

PROP-PANT STUDY

**\$50,000**

Millions of tons of sand and ceramic prop-pants are used every year in the Williston Basin, part of a multi-billion dollar industry. We were funded during the current biennium to collect sand and clay samples in the field and to do some preliminary testing. We have collected more than 100 sand samples from throughout the state of North Dakota and performed some preliminary testing to complete Phase 1 of this important project. The next logical step is to perform more complicated, expensive analysis of the top ten sand samples that appear to hold the most promise.

Change Group: A	Change Type: D	Change No: 22	Priority: 17
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Shallow Gas Study

**BUDGET CHANGES NARRATIVE****405 Industrial Commission****Bill#: HB1014****Date:** 01/13/2011**Time:** 11:01:20Geological Survey

## SHALLOW GAS STUDY

\$25,000

This biennium we received funding for a special project to complete field-checking North Dakota State Water Commission water wells for methane (natural gas). We monitored 2,500 wells in the field and found detectable natural gas in 550 of them, bringing the total number of wells tested under this project to 4,300 with detectable gas in 900 of them. A Phase II of this project would include isotopic analysis of the gas to determine if it is deep gas that is migrating to the surface or shallow gas generated in the zone within which it was found. The ultimate goal of this project is to identify areas of economic, shallow natural gas.

<b>Change Group:</b> A	<b>Change Type:</b> D	<b>Change No:</b> 23	<b>Priority:</b> 19
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Paleontologic Prep work

Geological Survey

## PALEONTOLOGICAL PREP WORK

\$62,400

Tens of thousands of paleontological specimens will have to be packed into boxes for transfer to the new paleontology laboratory in the expanded Heritage Center. While the Heritage Center expansion may not be completed until early in the 2013-2015 biennium, considerable time will be needed to prepare fragile fossil specimens for packaging and transfer into a new, compact shelving system. We are requesting funds for two temporary employees to work 40 hours per week from July 1, 2012 to June 30, 2013

<b>Change Group:</b> A	<b>Change Type:</b> D	<b>Change No:</b> 24	<b>Priority:</b> 18
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Analysis of Oil-Bearing Rocks

Geological Survey

## ANALYSIS OF OIL-BEARING ROCKS

\$40,000

The total organic content and the rock evaluation properties of oil-bearing rocks can provide extremely important information on the burial history of the Williston Basin. The burial history is needed to understand why rocks in one area of the basin are able to generate hydrocarbons while those same rocks a short distance away are not. The analysis of five hundred rock samples from the Niobrara, Spearfish, Tyler, Roughlock, and Icebox Formations would provide valuable data that can be used in the exploration of hydrocarbons as well as assisting in the determination of the suitability of various horizons for carbon sequestration.

<b>Change Group:</b> A	<b>Change Type:</b> E	<b>Change No:</b> 1	<b>Priority:</b>
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Removal of 09-11 Biennium One-Time

Per 2011-13 Budget Request Limit guidelines, we are removing the following one-time adjustments:

**General Fund Dollars:**

1) Renewable Energy Program \$3,000,000

**BUDGET CHANGES NARRATIVE****405 Industrial Commission****Bill#: HB1014****Date:** 01/13/2011**Time:** 11:01:20

- 2) Fracturing Sand and Methane projects \$93,152
- 3) State facility lignite feasibility demonstration project \$400,000

**Special Funds:**

Contingent appropriation - Mineral Resources

<b>Change Group:</b> A	<b>Change Type:</b> F	<b>Change No:</b> 3	<b>Priority:</b>
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Remove 09-11 Biennium Capital Assets

Requested items in the 09-11 biennium have been purchased. We have no large dollar amount equipment needs for the 11-13 biennium.

<b>Change Group:</b> A	<b>Change Type:</b> G	<b>Change No:</b> 5	<b>Priority:</b> 2
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97% Budget Optional Savings

**Dept. Mineral Resources****SALARIES AND BENEFITS**

The decrease of **\$322,841** for the 97% budget is a result of eliminating one subsurface geologist, one engineering tech, and one petroleum engineer (3 FTE) to offset inflationary increases in operating expenses and increases in temporary salaries for hiring seasonal help as needed to complete core library re-boxing as well as oil and gas permitting and supervision of abandoned well plugging, and reclamation.

- 1) RIF a subsurface geologist \$188,173
- 2) RIF an engineering tech \$101,971
- 3) RIF a petroleum engineer \$177,058

The impact of these changes will be reduced hours of service at the core library, productivity in issuing drilling permits, and regulatory enforcement capability. The average hours available for use of the core library by industry, students, and the public will be reduced 30-40%. The average number of permits that can be issued and drilling inspections performed will be limited to approximately four per day which will limit the drilling rig count to approximately 85.

<b>Change Group:</b> R	<b>Change Type:</b> A	<b>Change No:</b> 6	<b>Priority:</b>
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Restoration and Inflation Adjustments

Restores 1.00 FTE and \$171,252 in budget cuts made by the agency to meet the hold-even budget request and provides an additional \$158,317 for operating expense inflationary increases.

**BUDGET CHANGES NARRATIVE****405 Industrial Commission****Bill#: HB1014****Date:** 01/13/2011**Time:** 11:01:20

<b>Change Group:</b> R	<b>Change Type:</b> A	<b>Change No:</b> 7	<b>Priority:</b>
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Funding Source Change 09-11 Contingency

Funds 2.00 FTE and related operating costs from the general fund that were part of a contingent appropriation subsequently approved by the Emergency Commission during the 2009-11 biennium.

<b>Change Group:</b> R	<b>Change Type:</b> A	<b>Change No:</b> 8	<b>Priority:</b>
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Equity Increases

Provides \$255,819 from the general fund for market salary adjustments targeted for recruitment and retention of geologist and engineer positions.

<b>Change Group:</b> R	<b>Change Type:</b> A	<b>Change No:</b> 9	<b>Priority:</b>
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New Petroleum Engineer

Authorizes 1.00 FTE and \$192,393 from the general fund for a petroleum engineer field inspector and related operating expenses.

<b>Change Group:</b> R	<b>Change Type:</b> A	<b>Change No:</b> 10	<b>Priority:</b>
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New Engineering Techs. Field Inspectors

Authorizes \$808,311 from the general fund for 6.00 FTE engineering technician field inspectors, to be hired incrementally throughout the biennium, and related operating costs.

<b>Change Group:</b> R	<b>Change Type:</b> A	<b>Change No:</b> 11	<b>Priority:</b>
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New Engineering Tech. Measurement Specialist

Provides \$179,593 from the general fund for 1.00 FTE engineering technician measurement specialist and related operating expenses.

<b>Change Group:</b> R	<b>Change Type:</b> A	<b>Change No:</b> 12	<b>Priority:</b>
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New Production Analyst Position

Authorizes \$118,503 from the general fund for 1.00 FTE production analyst and related operating expenses.

<b>Change Group:</b> R	<b>Change Type:</b> A	<b>Change No:</b> 13	<b>Priority:</b>
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New Geologist Subsurface Minerals Program

Provides \$212,739 from the general fund for 1.00 FTE geologist and related operating expenses for the subsurface minerals program.

<b>Change Group:</b> R	<b>Change Type:</b> B	<b>Change No:</b> 1	<b>Priority:</b>
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**BUDGET CHANGES NARRATIVE****405 Industrial Commission****Bill#: HB1014****Date:** 01/13/2011**Time:** 11:01:20

## Sand Deposit Study

Provides \$50,000 in one-time general fund dollars to continue study of sand deposits for potential use in the oil & gas well fracturing process.

<b>Change Group:</b> R	<b>Change Type:</b> B	<b>Change No:</b> 2	<b>Priority:</b>
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## Shallow Gas Study

Provides \$25,000 in one-time general fund dollars to continue project to identify potential drillings areas for economic, shallow natural gas.

<b>Change Group:</b> R	<b>Change Type:</b> B	<b>Change No:</b> 3	<b>Priority:</b>
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## Analysis of Oil-Bearing Rocks

Authorizes \$40,000 in one-time general fund dollars to perform analysis of oil-bearing rocks to provide data to be used in the exploration of hydrocarbons and to determine the suitability of certain areas for carbon sequestration.

<b>Change Group:</b> R	<b>Change Type:</b> B	<b>Change No:</b> 4	<b>Priority:</b>
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## Paleontologic Prep Work

Provides \$62,400 in one-time general fund dollars to prepare fossil specimans for transfer to new lab in the expanded Heritage Center.

<b>Change Group:</b> R	<b>Change Type:</b> B	<b>Change No:</b> 5	<b>Priority:</b>
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## Renewable Energy Development Program

Transfers \$3.0 million in one-time dollars from the general fund to the renewable energy development fund to continue renewable energy research, development, and education programs.